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CURRENT SUPPORT MEMORANDUM

NATURE AND IMPLICATIONS OF THE
RECENT SOVIET ECONOMIC PROPOSALS
CONCERNING THE AUSTRIAN STATE TREATY

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NATURE AND IMPLICATIONS OF THE
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At the recent meetings in Moscow on the Austrian State Treaty, the Soviet representatives offered the Austrian delegation a slightly more favorable economic settlement than the Long Draft arrangement agreed upon in 1949 by the Big Four. The new proposal gives the USSR 1 million tons of oil each year for 10 years instead of ownership of the most important oil fields for 30 years, as under the old Long Draft; provides for the return of the remaining shipping properties held by the USSR for \$2 million; and permits Austria to purchase all other Soviet-held industrial and commercial enterprises for \$150 million in goods instead of in US dollars. These holdings have been profitable for the USSR and are worth retaining. Their return to Austria for compensation, however, would not mean a substantial loss to the USSR and would be outweighed in the Soviet calculation by its political advantages.

1. Present Soviet Economic Holdings in Austria*

Valuable properties in eastern Austria have been under the control of the USSR ever since the end of World War II on the ground that they were German foreign assets to which the USSR was entitled under a unilateral interpretation of the Potsdam Agreement. The USSR organized these properties into 3 groups under the operational control of 3 newly-established Soviet state agencies.

- a. The Administration of Soviet Property in Austria (USIA), consists of an estimated 240 industrial and commercial enterprises including important manufacturers of industrial products such as electrical equipment, automotive equipment, precision instruments, chemicals, and metallurgical products. About 6 per cent of Austria's total industrial workers, or about some 50,000 Austrians, are employed in USIA establishments.
- b. Austria's oil fields, refineries, and related facilities are operated by the Soviet Mineral Oil Administration (SMV). These oil fields, the most productive in western Europe, are located entirely within the Soviet Zone. The current output of crude oil is about 3 million metric tons annually. Since 1947 these Soviet holdings have produced about 16 million tons of crude oil.**
- c. Properties of the Danube Shipping Company (DDSG) in eastern Austria make up the third group. Since most vessels have been removed to the USSR or to the Satelites, only a few DDSG properties remain in the Soviet Zone. The most valuable of these are the Korneuburg shipyard and some port facilities in Vienna

In addition, the USSR controls a chain of nearly 250 retail stores in Vienna and the Soviet Zone. These are not German assets but extra legal enterprises which have been established by the USSR since 1948.

* Unless otherwise indicated, information in this section is from source 1/.

** Data for 1947-53 from source 2/. Data for 1954 from source 3/.

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2. Economic Provisions of Section 35 of the Long Draft Treaty

The significant economic clauses found in Article 35 of the so-called Long Draft Treaty for Austria were agreed to by the 4 Occupation Powers in late 1949. Although the USSR has obstructed a Treaty settlement since then by raising various objections, Article 35 has not been a factor in the dispute. Most observers have thus assumed that, should the USSR decide to conclude the Treaty, Article 35 would stand without change.

The most pertinent provisions of Article 35, are as follows: 4/

- a. The USSR shall receive a 30-year concession to Austrian oil fields equivalent to 60 per cent of the output of crude oil in 1947; associated production and distribution properties; and an 8-year concession to 60 per cent of Austria's oil exploration areas, with the right to extract oil for a period of 25 years from the date of discovery of new oil deposits.
- b. The USSR shall receive oil refineries having an annual production capacity of 420,000 tons of crude oil.
- c. The USSR shall receive the remaining assets of the Danube Shipping Company in eastern Austria.
- d. The USSR shall transfer to Austria all other properties held or claimed by the USSR. In return for which, Austria shall pay the USSR \$150 million in freely convertible US currency within a period of 6 years.

Article 35 does not give an accurate impression of the extent of the properties earmarked for transfer to the USSR because of the large increase in Austria's oil output since 1947 and the concentration of this increase in properties which the USSR would retain. The practical effect would have been to give the USSR 30 years ownership rights in oil fields currently accounting for more than 90 per cent of total oil production. Similarly, the specific oil refineries which the USSR is granted by Article 35 now have a capacity of considerably more than 420,000 tons of crude oil annually. 5/

3. New Soviet Economic Proposals

At the recent Moscow meetings the USSR reportedly offered the Austrians the following economic settlement for an Austrian Treaty: 6/

- a. The USSR shall receive 1 million tons of crude oil per year for 10 years as payment for the return of all oil properties.
- b. Austria shall pay the USSR \$150 million in goods for the return of the USIA enterprises.
- c. Austria shall pay the USSR \$2 million for the return of the Danube Shipping Company assets in the Soviet Zone.

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4. Analysis of the Changes

Perhaps the most important general aspect of the new Soviet economic proposals is that they provide for the complete liquidation of the USSR's holdings in Austria. In contrast to Article 35, which would give the USSR permanent ownership rights in certain oil refineries and shipping properties in Austria and long-term ownership rights in Austrian oil fields and oil exploration areas, the new terms do not provide for Soviet retention of any properties.

Although it is probably somewhat more favorable from the Austrian point of view than Article 35 of the Long Draft, the proposed new economic settlement is not as generous as it first appears. Austria would take over the oil industry completely, obligating itself to deliver free of charge 1 million tons of crude oil annually during the next 10 years as payment. This is by no means an unattractive arrangement for the USSR.

The relevant comparison here is not between the size of these deliveries and the total current and prospective output of the properties, but rather between these deliveries and an estimate of Soviet net takings from the oil industry. The SMV enterprises incur most of the labor, material, and overhead costs of businesses operating in a sovereign foreign country, and the USSR's net takings, in terms of oil, therefore correspond to the profits earned by the industry, less the moderate amounts of investment made in the properties. In recent years, when total oil production has averaged about 3 million tons annually, it seems most unlikely that Soviet net takings have exceeded 33 per cent of total production. 7/ Based on an analysis of a single year, it appears that Austrian deliveries under the new proposal would be as beneficial to the USSR as its present arrangement and would be somewhat more beneficial than Article 35.

The second change shortens the period during which the USSR would continue to benefit from Austrian oil resources after the conclusion of the Treaty. Article 35 granted oil benefits for a period of 30 years, whereas the new proposal covers a period of only 10 years. This apparent Soviet concession is also less significant than appears on the surface.

The key factor here is the size of Austrian crude oil reserves. The remaining potential oil resources in Austria amount to an estimated 36 million tons, which is only 12 times the current annual output. 8/ Although oil reserves are notoriously difficult to estimate and the possibility of major new discoveries in eastern Austria cannot be ruled out, the present outlook is that production will begin to decline within a few years and the presently known reserves are expected to be largely depleted not long after the completion of deliveries to the Soviet Union. 9/ If this appraisal of reserves is roughly accurate, the advantage to the USSR of the 30-year concession of Article 35 over the new arrangement is not particularly great.

The oil exploration concession included in Article 35 has some value, but it certainly does not promise the benefits which accrued to the USSR when it took over fields. Even if oil exploration in Austria seemed promising, the USSR would not place too high a value on an oil exploration concession if exploration in other potential oil-producing areas within the Soviet Bloc appeared to be more promising.

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The Soviet offer to take goods in place of US dollars in payment for the USIA enterprises is an advantage to Austria and a moderate concession from the standpoint of the USSR. It is not, however, an entirely new proposal, inasmuch as there was some suggestion last year at the Berlin Foreign Ministers' Conference that the USSR would accept goods in place of US dollars. The chief effect of payment in goods rather than dollars would be to give the USSR less flexibility in purchasing materials and equipment in the West.

Since the \$150 million requested is a payment for the USIA enterprises, a comparison of this sum with the USSR's estimated net takings from the operation of these properties is of interest. The gross value of USIA production in 1953 is estimated at roughly \$140 million. About 15 per cent of this amount, or \$21 million, is regarded as a reasonable estimate of Soviet net takings in 1953. The estimated net takings for the entire period 1946-53 is \$150 million -- the same as the proposed payment from Austria. Estimated net takings reached a peak of \$30 million in 1951, declining in both 1952 and 1953. 10/ No estimate for 1954 is available at this time, but it is likely that net takings were about the same as in 1953 or slightly lower. A further decline in net takings is probable because of the need for expenditures on modernization and repairs.

The offer to return the Danube Shipping Company assets at a price of \$2 million is not of great importance. Few DDSG properties still remain in the Soviet Zone, and there is little shipping activity by this enterprise. The Korneuburg shipyard and the port facilities in Vienna are the most valuable remaining assets. Since the DDSG assets were valued at about \$4 million in 1953, 11/ the payment of \$2 million requested by the USSR for their return does not seem unreasonable.

In summary, the following propositions may be advanced with respect to the Soviet economic position in Austria:

- a. Soviet delay in concluding an Austrian Treaty is the result primarily of strategic and political considerations rather than of a desire to retain the economic properties now under its control.
- b. The Soviet holdings in Austria have been profitable to the USSR, and, taking only economic factors into account, are well worth retaining for a number of years at least. On the other hand, the products which have been taken out of Austria by this means are hardly vital to the USSR, and measured against the total Soviet economic effort, the size of the benefits is very small.
- c. Although the status quo is the most favorable arrangement for the USSR, conclusion of a Treaty including either Article 35 or the new proposals for the compensated return of all holdings would not involve substantial economic losses for the USSR. A prospect of gaining some political objectives in Europe, even a modest one, would appear to be an ample justification for such concessions in the economic sphere.

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- d. The difference between the settlement provided in Article 35 and that represented by the new proposal is not great. Concessions from the settlement defined by Article 35 would to a large extent be gratuitous, since Austria and the Western Powers have stood ready for some years to conclude the Treaty on the basis of the Long Draft. Although the USSR has been solely responsible for the protracted stalemate over the Treaty, it would seem that its political, military, and propaganda aims could be achieved almost as effectively by a belated acceptance of the Long Draft as by the negotiation of a variant of the old document.
- e. The terms of the new economic proposal do not in themselves indicate whether or not the USSR is at last prepared to join the 3 Western Powers in concluding the Treaty.

Analyst: V. E. Mackliet

1. CIA. RR, PR-97, Recent Austro-Soviet Economic Relations, 11 Feb 1955, S/ NOFORN
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3. Department of Commerce, Weekly Economic Developments Abroad, 8 Apr 1955, p. 4, U
4. Cary T. Grayson, Jr., Austria's International Position, 1938-1953, Geneva, 1953, pp. 254-300, U
5. CIA. RR, PR-97, op. cit., p. 39
6. CIA. FBIS, Daily Report, Western Europe and Near East, 18 Apr 1955, p. P5, OFF USE
7. CIA. RR, PR-97, op. cit., p. 27
8. HICOA, Weekly Summary, Vol. III, No. 6, 8 Feb 1955, p. 9 S
9. CIA. RR, PR-97, op. cit., pp. 29, 39
10. Ibid., p. 22
11. Ibid., p. 31

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